

Center for American Progress Action Fund



April 15, 2013

The Honorable Lynn Jenkins
Chair
Income and Tax Distribution
Tax Reform Working Group
United States House of Representatives
Washington, D.C. 20515

The Honorable Joseph Crowley
Vice Chair
Income and Tax Distribution
Tax Reform Working Group
United States House of Representatives
Washington, D.C. 20515

Dear Representatives Jenkins and Crowley:

The Center for American Progress Action Fund is pleased to submit our comments in support of progressive, revenue-enhancing, and simplifying tax reform. We propose a federal tax reform plan that raises adequate revenue progressively while making the tax system more efficient, simple, fair, and comprehensible.

Our current tax system falls short in three key ways. First, federal revenue levels today are at their lowest level since the 1950s, and our tax system does not raise sufficient funds to pay for critical public investments or to protect our most vulnerable citizens. Second, our tax system has become less progressive over the past several decades, with the highest-income households enjoying substantial tax cuts even as their incomes have risen. Third, our tax code is too complex and contains too many narrowly targeted special-interest breaks.

The Center for American Progress Action Fund recommends a tax reform plan that addresses these failings. Our plan redesigns the income tax code so that it will generate adequate levels of revenue to meet our crucial goals, raises this revenue in a progressive way by asking those in the top income brackets to pay more, simplifies the filing process, and streamlines the code. Specifically, we support the top marginal tax rate on personal income of 39.6 percent, a top marginal tax rate of 28 percent on capital gains as it was under President Ronald Reagan, converting tax deductions to tax credits, closing tax loopholes, simplifying the tax system by reducing the number of filers who itemize, and repealing the alternative minimum tax.

While specific policy proposals are outlined below for your consideration, our principal view is that the personal exemption, standard deduction, and itemized deductions disproportionately benefit higher-income taxpayers, and marginal tax rates should raise adequate revenue while reducing after-tax income inequality.

We offer the following recommendations to you as the chair and vice chair of the Income and Tax Distribution Tax Reform Working Group:

- Personal exemptions, standard deduction, and itemized deductions: Under the current tax code, many tax expenditures are “upside-down” because they provide a bigger benefit to those in higher tax brackets. We would replace personal exemptions, the standard deduction, and itemized deductions with a “standard credit”—\$5,000 for couples and \$2,500 for singles—and 18 percent “itemized credits”—except for charitable contributions, which would receive an itemized credit of up to 28 percent. This would provide the same tax benefit to taxpayers in all tax brackets, with middle-income taxpayers benefiting most from the change.
- Dependent exemption: Higher-income households currently receive a greater benefit from the dependent exemption than do lower- and middle-income households. We would eliminate this upside-down problem by replacing the dependent exemption with an expanded child tax credit of \$1,600. We would make the child credit refundable under today’s rules and lift the phase-out point to \$200,000. We would also establish a \$600 nonrefundable credit for nonchild dependents.
- Marginal tax rates: Our proposal reforms marginal tax rates in a progressive manner that allows us to raise needed revenue and reduce after-tax income inequality. Today’s top individual income tax rate of 39.6 percent—the same as it was under President Bill Clinton from 1993 to 2000—is reasonable and should not be lowered. The historical record strongly suggests that rates below this would have little meaningful positive effect on work incentives or economic growth.

We support the following marginal tax rates:

Couples	Singles
\$0-\$100,000: 15%	\$0-\$50,000: 15%
\$100,000-\$150,000: 21%	\$50,000-\$75,000: 21%
\$150,000-\$200,000: 25%	\$75,000-\$150,000: 25%
\$200,000-\$422,000: 35%	\$150,000-\$422,000: 35%
\$422,000 and above: 39.6%	\$422,000 and above: 39.6%

- Earned income tax credit: The earned income tax credit, or EITC, keeps millions of working families out of poverty, improves family health and student education, and generates \$1.50 to \$2 of economic activity for every \$1 spent. We would permanently extend the EITC enhancements enacted as part of the 2009 Recovery Act and include additional credits for larger families and expanded marriage penalty relief.

For more information on our tax reform plan, please read our report: “Reforming Our Tax System, Reducing Our Deficit,” by Roger Altman, William Daley, John Podesta, Robert Rubin, Lawrence Summers, Neera Tanden, and Antonio Weiss, with Michael Ettlinger, Seth Hanlon, and Michael Linden.

Any plan for balanced and realistic deficit reduction must include progressive tax reform. We urge the committee to embrace a tax reform plan that asks those who can most afford it to bear their fair share of the burden while protecting seniors, the middle class, and those striving to get into the middle class.

The Center for American Progress Action Fund thanks you for your consideration of our views on tax reform. We welcome the opportunity to provide additional information or to discuss our recommendations in greater detail.

Sincerely,

Michael Linden
Managing Director for Economic Policy
Center for American Progress Action Fund